OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

OFFICE OF THE CITY ATTORNEY
SAN FRANCISCO

DENNIS J. HERRERA
CITY ATTORNEY

July 24, 2019

Governor Gavin Newsom
State of California
1303 10th Street, Suite 1173
Sacramento, CA 95814

Re: San Francisco's Proposed Acquisition of PG&E Assets

Dear Governor Newsom,

We write to update you on San Francisco's efforts to pursue purchasing the PG&E facilities needed to provide electric service to all of San Francisco. In particular, we describe why we believe the current circumstances present an historic opportunity for the City and why the City's acquisition of those facilities would further the work you have undertaken to ensure safe, reliable and sustainable electric service to California customers. As you may have heard from your staff, we would like to meet with you soon to discuss these matters in more detail, including the benefits of such a transaction to PG&E and California.

Brief Background

In January 2019 the City initiated intensive work to determine the feasibility of an acquisition. Our offices are working closely with the San Francisco Board of Supervisors, Public Utilities Commission, and a team of independent experts who are examining the financial, engineering and operational feasibility of the acquisition and studying the potential impacts on the City and its constituents as well as on remaining PG&E ratepayers, creditors and other stakeholders. The City family has been aligned in its support of this endeavor.

In May, the City's Public Utilities Commission ("SFPUC") issued a preliminary report showing that public ownership of San Francisco's electric grid has the potential for significant long-term benefits relative to investment costs and risks, including helping the City meet its goal of being 100 percent carbon neutral by 2030 and providing more stable rates and more transparency for customers. Importantly, the SFPUC also stated in its report that the City would welcome PG&E's existing workforce into SFPUC's community-owned public service culture, where safety and efficiency are priorities. (Here is a link to that report: https://sfwater.org/modules/showdocument.aspx?documentid=13736.)

The City is continuing its due diligence on these and many other issues to examine the feasibility and public benefits of acquiring certain of PG&E's electric assets serving San Francisco. Based on the analyses to date, we are optimistic that the City will be in a position in the near future to make an attractive offer to PG&E to purchase those facilities. We expect to have the support of the SFPUC and the Board of Supervisors before making that offer.

Now is an Opportune Time to Acquire PG&E's Facilities

As you know, the 1913 Raker Act intended the City to provide not only water but also electricity to everyone in San Francisco. The City started producing electricity in 1918 to power construction of Hetch Hetchy and has served City departments and related entities for decades, paying PG&E to transmit City power over PG&E's lines to City customers in San Francisco. The City has sought to use its power resources strategically to support economic development, decarbonization, affordable housing and other City goals. You may recall some of these efforts that began under your leadership as Mayor, including the City's decision to be the sole provider of electricity at the Hunters Point shipyard redevelopment project.

Yet, PG&E has vigorously opposed these efforts and consistently sought to limit the City's ability to serve customers. Indeed, PG&E has delayed service to City departments and imposed requirements that increased costs for no good reason, affecting every type of City facility, including police services, parks, and homeless services. Despite years of negotiations, PG&E continues to create obstacles, and matters have only gotten worse during the bankruptcy.

As recent newspaper articles have detailed, including a critical report in the Wall Street Journal that even caught Judge Alsup's attention in the federal criminal case against PG&E (https://www.wsj.com/articles/pg-e-knew-for-years-its-lines-could-spark-wildfires-and-didnt-fix-them-11562768885?mod=hp_lead_pos5&mod=article_inline), PG&E has chosen to defer investment in its infrastructure to help ensure reliability and safety. We have lost trust in PG&E as a steward of the public utility in San Francisco and we have lost patience in trying to work with PG&E to further the City's electric service goals. PG&E's bankruptcy filing to avoid liability to wildfire victims only highlights our concerns and loss of trust. We believe PG&E's bankruptcy presents an historic opportunity for a restructuring that allows the City to take control over its energy future while at the same time helping PG&E to emerge from bankruptcy on solid financial footing in a way that compensates fire victims, protects remaining ratepayers and better serves California.

In June 2018, San Francisco voters laid the groundwork for this acquisition by amending the Charter to authorize the Board of Supervisors to approve selling revenue bonds to finance the cost of building or acquiring electric transmission and distribution facilities. This measure recognized that the threat of global warming required the City to use its power resources to decarbonize not just the electric sector, but also to support decarbonizing other sectors like transportation and housing; all of this requires a modern open-access distribution grid to facilitate new technologies. Without local control of the distribution grid, the City will be unable to fully achieve these objectives.

The City's Acquisition Appears to be Feasible

Although the City continues its work on this question (as we referenced above), the City's preliminary analyses show that the City could pay an attractive price for PG&E's facilities and still be able to offer rates to customers at or below the level of PG&E's rates ordered by the California Public Utilities Commission ("CPUC"). Unlike PG&E, the City will not pay an equity rate of return, shareholder dividends or high management salaries. The City would expect initially to match PG&E's level of service, and to improve service over time by investing in the system and focusing on the particular needs of local customers.

The City is financially stable and the SFPUC has well established access to the capital markets for its current operations, including power. These investment grade credit ratings are based on the strength of the service territory, customer base, and utility operations to date. We are therefore confident we will attract the debt capital needed to fund the acquisition, cover other related costs, and operate and maintain the system responsibly over time. Needed capital improvements could be funded using lower cost debt not available to PG&E, thereby

accelerating replacements to improve safety and reliability while reducing customer rates over the long-term.

While the City currently operates electric transmission and distribution facilities, the scale of those operations would substantially increase if it were serving all of San Francisco. The City would expect to add a large number of experienced electrical workers and would recruit PG&E's existing employees who are responsible for the facilities serving San Francisco, offering competitive union jobs and stable careers, with appealing wages and benefits.

And as a supplier of electricity, the City is well positioned to take on the added responsibility for serving all of San Francisco since it already provides the majority of the electricity used there. Indeed, the City's municipal utility and its community choice aggregation program, CleanPowerSF, together are responsible for nearly 80% of the electricity used in San Francisco. The SFPUC also is well positioned to meet customer needs, something it does for water and wastewater customers throughout the City.

The Public Benefits of the City's Acquisition are Consistent with the State's Energy Goals

In addition to the substantial benefits to the ratepayers of San Francisco, the City's acquisition of PG&E's system would also provide benefits to other stakeholders, including PG&E's remaining ratepayers. Most immediately, the City's purchase of PG&E's facilities would provide a substantial cash infusion to help fund PG&E's emergence from bankruptcy. These funds will be available to recapitalize the company on attractive terms that are not dilutive and do not require any financial engineering. This would benefit ratepayers, shareholders, and creditors, including fire victims whose claims have not been quantified yet. The City's acquisition can help PG&E emerge from bankruptcy quickly, consistent with the deadlines in the recently enacted wildfire bill, and at no cost to PG&E's ratepayers. The City recognizes the importance of this deadline and is prepared to work expeditiously to ensure any transaction is consummated on a timeline consistent with PG&E's emergence.

The CPUC must approve any transfer of utility property under Public Utilities Code Section 851 to determine the impact on remaining ratepayers and the adequacy of the purchase price. The CPUC decides how to allocate the gain on sale from a transfer of utility assets, and it has considerable discretion in allocating gain on sale between ratepayers and shareholders. This provides the State another tool for balancing the burdens associated with PG&E's emergence from bankruptcy.

Also, San Francisco is committed to the State's environmental goals and has its own goals for addressing climate change. The City would be able to decarbonize much more aggressively if it were serving all electricity customers in San Francisco. And the City's long-term commitment to employees and workforce stability would also benefit PG&E's current employees and the local labor market. Similarly, the City has a strong commitment to safety and reliability, and those will not be sacrificed to shareholder dividends or management bonuses. In fact, this transaction would end decades of major strife between the City and PG&E, allowing PG&E to focus on larger statewide issues, including wildfire safety, after it emerges from bankruptcy. We look forward to working with PG&E's new management and hope they will recognize these benefits.

We look forward to discussing the City's acquisition plans with you soon. Also, the City has engaged a financial advisor, Jefferies, to assist with this work. Jefferies is available to discuss the acquisition in detail with your financial advisors or with other members of your team.

Very truly yours,

LONDON N. BREED
MAYOR

DENNIS J. HERRERA
CITY ATTORNEY

cc: Members, San Francisco Board of Supervisors
Members, San Francisco Public Utilities Commission
Harlan L. Kelly, Jr., General Manager, San Francisco Public Utilities Commission